

Message Text

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ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 /026 R

DRAFTED BY NEA/EGY:CAKENNEDY:SEB
APPROVED BY NEA/EGY:DONEWBERRY
D - RPOATS
EB/IDF/ODF -
EB/ORF/OF - SJOHNSON (DRAFT)
EB/ORF/OF - FSPILLMAN (DRAFT)
NEA - EABINGTON
S/S: PSEBASTIAN
DESIRED DISTRIBUTION
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FM SECSTATE WASHDC
TO AMEMBASSY CAIRO IMMEDIATE

C O N F I D E N T I A L STATE 309238

STADIS////////////////////////////////////
EXDIS FOR AMBASSADOR FROM NEA/EGY

E.O. 11652: GDS

TAGS: EAGR, EAID, EFIN

SUBJECT: CCC EXPORT CREDIT SALES PROGRAM (GSM-4) AND TITLE
I PROGRAM IN EGYPT

REF: A) CAIRO 17478; B)CAIRO 17482; C) CAIRO 17557;
D) STATE 276830; E) 303830

1. WE ARE CONSULTING WITH ROBINSON AND NOOTER STAFFS
LOOKING TOWARD AN EARLY REPLY TO YOUR 17482. MEANWHILE
YOU WILL WANT TO HAVE BACKGROUND SET FORTH BELOW.
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2. CCC EXPORT CREDIT SALES PROGRAM.
NEA/EGY HAS CONSULTED WITH STATE (EB) AND USDA CCC OFFICER
ON EXPORT CREDIT PROGRAM. CCC OFFICER HAS STATED THEY ARE
NOT RPT NOT IN FAVOR OF A NEW LINE OF CREDIT FOR EGYPT AND
-THAT THEY HAVE NEVER GIVEN ENCOURAGEMENT TO USDA PERSONNEL

OR ANYONE ELSE ABOUT A NEW LINE OF CREDIT IF ARREARAGES PAID. TECHNICALLY, WE SUPPOSE EGYPT WOULD BE ELIGIBLE FOR NEW CREDIT WHEN ARREARAGES PAID BUT ELIGIBILITY DIFFERENT FROM APPROVAL. CCC HAS HAD BAD EXPERIENCE WITH EGYPT, CONSIDERS EGYPT AT LOWEST END OF SCALE ON ABILITY TO REPAY THIS TYPE OF CREDIT AND ANTICIPATES THAT IT WOULD BE MOST DIFFICULT IF NOT IMPOSSIBLE TO GET A U.S. COMMERCIAL BANK TO

PARTICIPATE AT 10PCT MINIMUM LEVEL. ALTHOUGH WE COULD ATTEMPT TO TURN CCC AROUND ON POLITICAL BASIS, EB OFFICERS COUNSEL THAT RATIONAL ARGUMENTS ARE ON SIDE OF CCC. TERMS FOR CCC CREDIT SALES ARE 3 YEARS AT 9PCT. THIS TYPE OF FINANCING WOULD BE MOST DIFFICULT, IF NOT COUNTER-PRODUCTIVE, FOR US TO ENCOURAGE FOR GOE UNDER CURRENT DEBT STRUCTURE THAT EMBASSY HAS DESCRIBED AND WITH APPARENT BUILD UP OF ARREARAGES. WE ARE ADVISED ALSO THAT A \$5 MILLION CREDIT SALES PROGRAM IS REALLY TOO SMALL FOR TIME AND EFFORT INVOLVED. A VIABLE PROGRAM SHOULD BE \$20 MILLION OR MORE AND WE WOULD FACE SERIOUS ARGUMENTATION THAT THIS AMOUNT IS TOO HIGH FOR EGYPT'S CAPABILITIES TO REPAY AT THIS TIME.

3. IF, AS IT APPEARS A NEW CCC CREDIT LINE IS REMOTE, WE HAVE BEEN CAUTIONED THAT GOE SHOULD NOT GET IDEA THAT PAYMENT OF CURRENT CCC ARREARAGES BRINGS THEM NO TANGIBLE BENEFITS. DEBT ARREARAGE HAS POTENTIAL FOR CAUSING US PROBLEMS WITH FUTURE AID AND PL-480 PROGRAMS. ALSO, CCC ARREARAGES APPARENTLY TRIGGER CERTAIN FINANCIAL ACTIONS WHICH IN U.S. COMMERCIAL BANK COMMUNITY COULD LEAD

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TO IMPEDIMENTS RE EGYPT'S COMMERCIAL BORROWING CAPABILITIES. FINALLY, ARREARAGES TEND TO INHIBIT APPROVAL OF LOANS OF INTERNATIONAL FINANCIAL INSTITUTIONS.

4. PL 480 TITLE I PROGRAM.
CCC ARREARAGES HAVE NOT YET CAUSED USDA TO TAKE "HARD LINE" RE PL-480 TITLE I PROGRAM FOR EGYPT. ASIDE FROM WHEAT (COVERED SEPTEL), THE FOLLOWING IS A STATUS REPORT ON OTHER COMMODITIES CONSIDERED FOR INCLUSION AT GOE REQUEST UNDER FY77 PROGRAM.

A. CORN: ALTHOUGH U.S. DOMESTIC CROP IS LARGE, ITEM IS IN LIMITED SUPPLY UNDER PL-480 AND DOMESTIC MARKET IS DESCRIBED AS "TIGHT".

B. COTTON: CURRENT ESTIMATES ARE THAT U.S. MARKET WILL BE IN SHORT SUPPLY AND THAT MEASURES TO RESTRICT U.S. EXPORTS THIS ITEM MAY BE FORTHCOMING.

C. RICE: ELIMINATED FROM CONSIDERATION SINCE EGYPT EXPORTS ITEM.

D. VEGETABLE OIL: SOYBEAN OIL ONLY AVAILABLE, BUT ANTICIPATE RESISTANCE FROM OMB. (SEE PARA F BELOW).

E. SOYBEANS: NOT ELIGIBLE UNDER PL-480.

F. TOBACCO AND BEANS: WITH FALL IN COMMODITY PRICES, OMB HAS TAKEN POSITION THAT AGREED COMMODITY LEVELS FOR FY77 PL-480 TITLE I PROGRAMS SHALL PREVAIL OVER DOLLAR AMOUNTS. INTERAGENCY COMMITTEE HAD PROPOSED INCREASE FOR EGYPT OF TOBACCO (UP TO 8 THOUSAND TONS) AND INCLUSION OF BEANS. HOWEVER, IN NEGOTIATING NEW DOLLAR AMOUNT OF FY77 PL-480 BUDGET, OMB CUT TOBACCO TO ORIGINAL LEVEL AND ELIMINATED

BEANS. WE ACCEPTED CUTS IN TOBACCO AND BEANS HOPING THAT OMB WOULD THEN AGREE ON INCREASED WHEAT, WHICH HAS NOT YET BEEN APPROVED.

5. IN SUM, PROSPECTS FOR ADDED ITEMS UNDER FY77 PL-480 TITLE I ARE DIM.

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6. CIP. IN CONVERSATIONS WITH NEA/EGY: AID REPS HAVE EXPRESSED NO TECHNICAL OR LEGAL OBJECTIONS TO USING PART OF CIP PROGRAM FOR FINANCING FOOD ITEMS NOT INCLUDED IN PL-480 PROGRAMS OR FOR PURCHASING AMOUNTS ABOVE PL-480 LEVELS. SINCE IT APPEARS UNLIKELY THAT WE COULD ARGUE SUCCESSFULLY FOR A NEW CCC EXPORT CREDIT SALES PROGRAM OR SECURE THE INCLUSION OF ADDITIONAL ITEMS UNDER FY77 PL-480 TITLE I PROGRAM, EMBASSY MAY WISH TO RECONSIDER POSSIBILITY OF USING SOME OF CIP PROGRAM FOR THESE TYPES OF IMPORTS. ALTHOUGH SUCH IMPORTS FINANCED UNDER CIP HAVE A PERISHABLE IMAGE, VIRTUE COULD BE SHORT-TERM, EFFECTIVE POLITICAL IMPACT TO SUPPORT SADAT IN AREA OF APPARENT HIGH CONCERN TO HIM.

7. PER REFTTEL E, CCC LETTER TO EGYPTIAN EMBASSY WAS SENT WITHOUT COORDINATION WITH STATE. WE HAVE EXPRESSED OUR CONCERN TO CCC AND ASKED FOR PRIOR NOTIFICATION BEFORE COMMUNICATING WITH GOE. WE ARE STILL INVESTIGATING PROCEDURE FOR THIS TYPE OF ACTION BY CCC.
ROBINSON

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NNN

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